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BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED

WILLIAM A. MUNDELL  
CHAIRMAN

JIM IRVIN  
COMMISSIONER

MARC SPITZER  
COMMISSIONER

MAR 30 2001

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF  
MORRISTOWN WATER COMPANY, INC. FOR A  
PERMANENT RATE INCREASE.

DOCKET NO. W-02164A-00-0928

DECISION NO. 63502

**ORDER**

Open Meeting  
March 27 and 28, 2001  
Phoenix, Arizona

**BY THE COMMISSION:**

On November 13, 2000, Morristown Water Company, Inc. ("Company" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase. On November 27, 2000, Applicant amended its application.

On November 30, 2000, the Commission's Utilities Division ("Staff") filed a notice that the rate application had met the sufficiency requirement of A.A.C. R14-2-103.

Applicant provided notice to its customers of the application for a permanent rate increase on November 10, 2000. In response thereto, the Commission has not received any protests in opposition to the requested increase.

On February 14, 2001, Staff filed its Staff Report, recommending that the rates proposed by Staff be approved without a hearing.

\* \* \* \* \*

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

**FINDINGS OF FACT**

1. Applicant is an Arizona corporation engaged in the business of providing water service to the public in an area approximately 35 miles northwest of Phoenix, Maricopa County,

1 Arizona pursuant to authority granted by the Commission in Decision No. 44820 (November 27,  
2 1974).

3 2. The Company's present rates and charges for water service were approved in Decision  
4 No. 58504 (January 13, 1994).

5 3. On November 13, 2000, the Company filed with the Commission a rate application  
6 requesting authority to increase its rates and charges. On November 27, 2000, the Company  
7 amended its application.

8 4. On November 30, 2000, Staff filed notice that the rate application met the sufficiency  
9 requirements of A.A.C. R14-2-103.

10 5. During the test year ended December 31, 1999 ("TY"), Applicant served 48 customers  
11 who are primarily provided service by means of 5/8 x 3/4 inch meters.

12 6. Average and median water usage for the Company during the TY were 6,302 and  
13 3,674 gallons per month, respectively.

14 7. On November 10, 2000, Applicant notified its customers of the proposed rate increase,  
15 and in response thereto, the Commission has not received any protests.

16 8. Staff conducted an investigation of Applicant's proposed rates and charges, and in the  
17 Staff Report filed February 14, 2001, recommended that its proposed rates be approved without a  
18 hearing.

19 9. The rates and charges for Applicant at present, as proposed in the application, and as  
20 recommended by Staff are as follows:

	Present Rates	Proposed Rates	
		<u>Company</u>	<u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$13.00	\$20.00	\$16.00
3/4" Meter	17.25	27.00	24.00
1" Meter	18.50	28.00	36.00
1 1/2" Meter	20.00	31.00	54.00
2" Meter	24.00	37.00	81.00
3" Meter	48.00	74.00	121.50
4" Meter	96.00	148.00	182.25
6" Meter	192.00	296.00	273.38

1	Gallons Included in Monthly Minimum	1,000	0	0
2	Gallage Charge - Per 1,000 Gallons:			
	0 to 1,000 gallons	0.00	\$2.50	\$2.20
3	1001 to 5,000 gallons	2.20	2.50	2.20
	5001 to 10,000 gallons	2.20	3.50	2.20
4	10001 to 20,000 gallons	2.20	4.00	2.20

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

5	5/8" x 3/4" Meter	\$315.00	\$315.00	\$375.00
6	3/4" Meter	350.00	350.00	435.00
7	1" Meter	385.00	385.00	510.00
8	1 1/2" Meter	575.00	575.00	740.00
9	2" Meter	950.00	950.00	1,300.00
	3" Meter	1,175.00	1,175.00	1,855.00
10	4" Meter	1,950.00	1,950.00	2,870.00
	6" Meter	3,825.00	3,825.00	5,375.00

SERVICE CHARGE:

12	Establishment	\$15.00	\$15.00	\$15.00
13	Establishment (After Hours)	30.00	30.00	30.00
	Reconnection (Delinquent)	30.00	30.00	30.00
14	Meter Test (If Correct)	40.00	40.00	40.00
	Deposit	0.00	0.00	0.00
15	Deposit Interest	0.00%	0.00%	*
	Reestablishment (Within 12 Months)	0.00	**	**
16	NSF Check	15.00	15.00	15.00
17	Deferred Payment (per Month)	1.50%	1.50%	1.50%
	Meter Reread (If Correct)	10.00	10.00	10.00

Monthly Service Charge for Fire Sprinkler:

19	4" or Smaller	\$0.00	\$0.00	***
	6"	0.00	0.00	***
20	8"	0.00	0.00	***
21	10"	0.00	0.00	***
	Larger than 10"	0.00	0.00	***

\* Per Commission Rule A.A.C. R-14-2-403(B).

\*\* Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

\*\*\* 1% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct for the primary water service line.

10. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined to be \$11,285, which is the same as its original cost rate base.<sup>1</sup>

11. Applicant's present rates and charges produced adjusted operating revenues of \$16,075<sup>2</sup> and adjusted operating expenses of \$16,299 which resulted in an operating loss of \$224 for the TY.

12. The rates and charges Applicant proposed would produce operating revenues of \$22,430 and adjusted operating expenses of \$16,409, resulting in net operating income of \$6,021 for a 50.92 percent rate of return on FVRB.

13. The rates and charges Staff recommended would produce operating revenues of \$21,611 and adjusted operating expenses of \$16,409 resulting in net operating income of \$5,202 for a 43.99 percent rate of return on FVRB.

14. Staff's recommendation increases the Company's revenues by \$5,536 over Applicant's adjusted TY revenues.

15. Applicant's proposed rates would increase the average monthly customer bill by 47.6 percent from \$24.66 to \$36.40, and the median monthly customer bill by 54.6 percent from \$18.88 to \$29.18.

16. Staff's recommended rates would increase the average monthly customer bill by 21.1 percent, from \$24.66 to \$29.86, and the median monthly customer bill by 27.5 percent, from \$18.88 to \$24.08.

17. Staff believes that its recommended rates should amply provide Applicant with the necessary operating income to insure viable operations in the future, including financing long-term debt for certain improvements described hereinafter.

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<sup>1</sup> Staff's \$6,341 reduction to FVRB was primarily due to Staff increasing Applicant's plant advance account for meter deposits and for Contributions in Aid of Construction ("CIAC") due to funds collected from customers for an unauthorized surcharge.

<sup>2</sup> Staff reduced Applicant's claimed TY operating income by \$5,175 after reclassifying \$3,590 collected during the TY from customers for the unauthorized surcharge and \$1,585 collected for meter deposits which was reclassified to the Company's plant advance account.

1        18. Staff has verified that Applicant is current on its property tax payments to Maricopa  
2 County and that the Company is also current with its payment of sales taxes to the Arizona  
3 Department of Revenue.

4        19. Staff is unable to verify that Applicant is in compliance with respect to its water  
5 quality because, according to the Maricopa County Department of Environmental Services  
6 ("MCDES"), Applicant has failed to submit eleven monthly bacteria sample results in the last three  
7 years, has major plant deficiencies and is not monitoring some chemicals. MCDES cannot state that  
8 Applicant's water has no maximum contaminant level violations ("MCLs") and that its water meets  
9 the water quality standards of the Safe Drinking Water Act ("SDWA").

10       20. During its review of Applicant's records, Staff learned that in 1998 the homeowners  
11 association voted to fund the replacement of Applicant's rusting 20,000 gallon storage tank and  
12 assess the association's members a \$10 surcharge per customer per month, to end in June 1999. This  
13 action was taken without Commission authorization and Applicant had collected \$5,790<sup>3</sup> when the  
14 surcharge automatically ended in June.

15       21. Staff believes that the unauthorized surcharge fund is inadequate to replace the tank  
16 and that the surcharge fund should be supplemented with additional long-term financing. Staff  
17 believes that such financing should be sought from the Water Infrastructure Finance Authority  
18 ("WIFA") to fund the tank replacement and other necessary improvements, and that the Applicant  
19 should seek financing approval from the Commission.

20       22. According to Staff, although Applicant appears to maintain its books and records in  
21 accordance with the National Association of Regulatory Commissioners ("NARUC") Uniform  
22 System Accounts, it needs to fully implement the NARUC accounting instructions to maintain its  
23 books accurately.

24       23. Staff's proposed rates and charges are reasonable and should be adopted as should the  
25 following additional Staff recommendations:

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28 <sup>3</sup> This sum represents the \$3,590 collected from the unauthorized surcharge during the TY and \$2,200 collected outside of  
the TY during 1998 when the surcharge was initiated.

- that the Company shall establish an interest bearing account and deposit the unauthorized surcharge funds totaling \$5,970 which is to be used solely for the replacement of the 20,000-gallon storage tank;
- that the Company shall seek approval prior to the implementation of charges not consistent with the Commission's approved tariffs;
- that the Company shall request financing authority from the Commission to fund the balance of the estimated costs of system repairs including the replacement of the 20,000-gallon storage tank;
- that the Company shall remove a cottonwood tree from its existing location to an area outside the wellsite by December 31, 2001 as discussed in the Staff Report;
- that the Company shall sandblast its 2,000-gallon pressure tank to remove rust and repaint it by October 31, 2001;
- that the Company shall replace its 20,000-gallon storage tank by December 31, 2001;
- that any rate increase approved hereinafter shall not become effective until the first day of the month following the Company filing, with the Director of the Utilities Division, documentation from MCDES or ADEQ that the water system has no MCL violations and is providing water which meets the water quality standards of the SDWA;
- that any rate increase granted shall be interim and subject to refund, if the Company misses any of the bacteriological tests between the effective date of this Decision and December 31, 2002;
- that the Company shall maintain a usage log on the Fire Department's water use each month to help determine losses due to unaccounted for water;
- that the Company shall reduce its unaccounted for water to a maximum of 15 percent by the next rate application, but preferably ten percent. If unaccounted for water cannot be reduced to ten percent, then the Company should provide a detailed explanation as to why it is not cost effective to do so; and
- that in addition to the collection of the Company's regular rates and charge, the Company shall collect from its customers the proportionate share of any appropriate state and local taxes as provided for in A.A.C. R14-2-409(D).

### CONCLUSIONS OF LAW

1. Applicant is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.
2. The Commission has jurisdiction over Applicant and of the subject matter of the application.
3. Notice of the application was provided in the manner prescribed by law.

4. The rates and charges authorized hereinafter are just and reasonable and should be approved without a hearing.

5. Staff's recommendations as set forth in Findings of Fact No. 23 are reasonable and should be adopted.

### ORDER

IT IS THEREFORE ORDERED that Morristown Water Company, Inc. is hereby directed to file on or before March 30, 2001, revised rate schedules setting forth the following rates and charges:

#### MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$16.00
3/4" Meter	24.00
1" Meter	36.00
1 1/2" Meter	54.00
2" Meter	81.00
3" Meter	121.00
4" Meter	182.25
6" Meter	273.38

Gallage Charge - Per 1,000 Gallons: \$2.20

#### SERVICE LINE AND METER INSTALLTION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

5/8" x 3/4" Meter	\$375.00
3/4" Meter	435.00
1" Meter	510.00
1 1/2" Meter	740.00
2" Meter	1,300.00
3" Meter	1,855.00
4" Meter	2,870.00
6" Meter	5,375.00

#### SERVICE CHARGE:

Establishment	\$15.00
Establishment (After Hours)	30.00
Reconnection (Delinquent)	30.00
Meter Test (If Correct)	40.00
Deposit Interest	*
Reestablishment (Within 12 Months)	**
NSF Check	15.00
Deferred Payment per month	1.50%
Meter Reread (If Correct)	10.00

Monthly Service Charge for Fire Sprinklers:

4" or Smaller

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6"

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8"

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10"

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Larger than 10"

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\* Per Commission Rule A.A.C. R-14-2-403(B).

\*\* Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

\*\*\* 1% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on the first day of the month following Morristown Water Company, Inc. filing, with the Director of the Commission's Utilities Division, written documentation from the Maricopa County Department of Environmental Services or the Arizona Department of Environmental Quality, that it is providing water with no maximum contaminant level violations and that meets the quality standards of the Safe Drinking Water Act.

IT IS FURTHER ORDERED that Morristown Water Company, Inc. shall notify its customers of the rates and charges authorized hereinabove and the effective date of same by means of an insert in its next regular monthly billing statement following the month in which it files the required environmental quality documentation.

IT IS FURTHER ORDERED that Morristown Water Company, Inc. shall comply with all Staff recommendations which appear in Findings of Fact No. 23.

IT IS FURTHER ORDERED that the above-described rate increase shall be interim and subject to refund if Morristown Water Company, Inc. fails to maintain its bacteriological testing schedule from the effective date of this Decision until December 31, 2002.

IT IS FURTHER ORDERED that Morristown Water Company, Inc. shall file, within 15 days of sending notice to its customers, with the Director of the Commission's Utilities Division, a copy of the notice sent to its customers.

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1 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

2 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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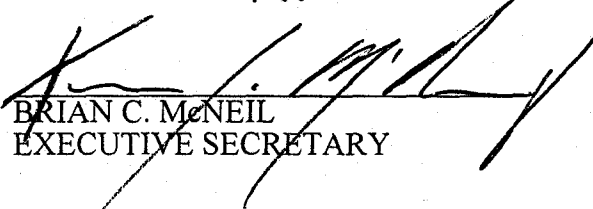
5 CHAIRMAN

COMMISSIONER



COMMISSIONER

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8 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
9 Secretary of the Arizona Corporation Commission, have  
10 hereunto set my hand and caused the official seal of the  
11 Commission to be affixed at the Capitol, in the City of Phoenix,  
12 this 3<sup>rd</sup> day of March, 2001.

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14 BRIAN C. McNEIL  
15 EXECUTIVE SECRETARY

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14 DISSENT \_\_\_\_\_  
15 MES:mlj

1 SERVICE LIST FOR: MORRISTOWN WATER COMPANY, INC.

2 DOCKET NO. W-02164A-00-0928

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4 George C. Charles  
5 Secretary  
6 MORRISTOWN WATER COMPANY  
7 P.O. Box 156  
8 Morristown, AZ 85342

9 Tom Waldbillig  
10 Maricopa County Environmental Services Department  
11 1001 North Central Avenue  
12 Phoenix, AZ 85012

13 Richard Tobin  
14 Arizona Department of Environmental Quality  
15 3033 North Central Avenue  
16 Phoenix, AZ 85012

17 Christopher Kempley, Chief Counsel  
18 Legal Division  
19 ARIZONA CORPORATION COMMISSION  
20 1200 West Washington Street  
21 Phoenix, Arizona 85007

22 Deborah Scott, Director  
23 Utilities Division  
24 ARIZONA CORPORATION COMMISSION  
25 1200 West Washington Street  
26 Phoenix, Arizona 85007

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